



Solutions, Inc.

Homeowner Opportunity Program (HOP)

Homeownership Guide *“Budgeting”*



HOP HOMEOWNERSHIP GUIDE ***“BUGETING”***

- A. Income
- B. Current expenses
 - i. Budgeting worksheet
- C. Projected expenses
- D. Homeownership expenses
 - i. Utilities
 - ii. Taxes
 - iii. Insurance
 - 1. Homeowners
 - 2. Personal property
 - 3. Special Coverage, i.e., flood, earthquake and other risk
 - a. Variables that determine premiums
 - b. Maintaining adequate insurance

Budgeting

- ✓ Knowing and keeping track of where your money goes will help you keep up the commitment of owning a home.
- ✓ Is the key to financial comfort.
- ✓ Careful budgeting will help you reduce overspending and help you begin to build cash reserves for savings and emergencies.
- ✓ Setting up a budget should be a family event.
- ✓ Couples should track expenses as a unit, and agree on the goals they set.
- ✓ Children should understand what a budget accomplishes and why impulse spending wrecks a budget.

Budgeting makes \$ense

Many financial planning experts suggest the following percentages in spending your after-tax monthly income:

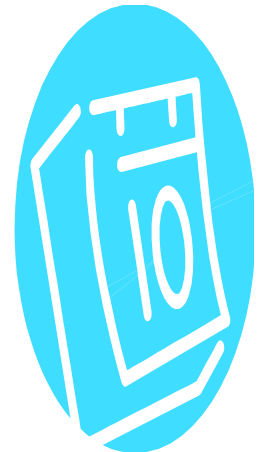
✓ Housing	25 to 30%
✓ Food	12 to 14%
✓ Life insurance	5 to 7%
✓ Medical	variable
✓ Transportation	5 to 7%
✓ Installment debt	should not exceed 10% of income
✓ Utilities	variable
✓ Recreation	4 to 6%
✓ Clothing	6% or more
✓ Savings	5 to 25% more



Naturally, these percentages aren't carved in stone. It depends on your family size and lifestyle needs. A single person might spend more on entertainment and less of life insurance.

Ten Basic Rules of Money Management

1. Plan
2. Set financial goals
3. Know your financial situation
4. Develop a realistic spending plan
5. Don't allow expenses to exceed income
6. Save
7. Pay your bills on time
8. Recognize the difference between necessities and things you desire
9. Use credit wisely
10. Keep a record of daily expenditures



Ways to Budget – The Envelope Method

- ✓ This method works well for those who are uncomfortable with numbers.
- ✓ Set aside money each week for your various expenses, rather than keep paper and pencil records of what you spend.
- ✓ What to Do...
- ✓ On a regular basis, divide money into envelopes for each category.
- ✓ Envelopes are labeled with specific purposes and amounts, such as groceries, clothing, utilities, fuel, etc.
- ✓ Record amounts in each envelope on the outside so you know how much to put in for each pay period.
- ✓ Transfer any money left over into a savings and/or emergency bank account.

The Envelope Method – Advantages and Disadvantages

Advantages

- ✓ Income is conveniently divided to cover all anticipated expenses.
- ✓ Money is always where it is supposed to be, and it is easy to see how much is in each envelope.
- ✓ It is a very simple system that works best for fairly small incomes.
- ✓ Requires little paper and pen recording.

Disadvantages

- ✓ May be uncomfortable keeping cash in home.
- ✓ Since cash is conveniently located, it may encourage careless or unplanned spending.
- ✓ When a shortage occurs in one envelope, it may be tempting to borrow from other envelopes.

The Envelope Method – Modifications

- ✓ This system can be used in combination with a checking account.
- ✓ For larger expenses such as mortgage or utilities, you may wish to pay by check.
- ✓ For your regular annual or semi-annual expenses like car, life and health insurance, property taxes or other special expenses, you may want to establish special savings accounts for those specific purposes.

Ways to Budget – The Yellow Sheet Method

- ✓ This method involves using a yellow sheet of paper to track expenses.
- ✓ The first step is to determine the two times a month you are going to pay bills – such as the 1st and the 15th, or the 15th and 30th.
- ✓ Next, determine your income for each half-month period.
- ✓ On or before the dates you've chosen above, make a list of all bills that need to be paid by date due. Also, remember to included all budget items including expenses which occur only occasionally.
- ✓ This amount should be deposited into a “working savings” account.
- ✓ You will find that a checking account is very useful to make this method work.

Why budgeting is important?

Budgeting is an important part of successful homeownership. By keeping track of where your money goes, you will be better able to keep up with the commitment of owning a house.

For example, most homeowner expenses include:

- **Utilities**
- **Taxes**
- **Insurance**
 - Homeowners
 - Personal Property
 - Special Coverage, i.e., flood, earthquake and other risk
 - Variables that determine premiums
 - Maintaining adequate insurance

Tips to Decrease Spending

- Carry only small amounts of cash in your wallets so you won't spend it.
- Use direct deposit. You will be less likely to spend money if it goes straight into your account.
- Control your use of credit cards.
- Don't go shopping just for fun.
- Take your written savings goals with you as a reminder.
- Buy only what you need – don't buy things just because they are on sale.
- Use coupons to save money.
- Use a grocery-shopping list to prevent impulse buying.
- Take your lunch to work instead of eating out
- Shop around to get the best deal for big-ticket items like cars and appliances.
- Pay your bills on time to avoid late fees, extra finance charges, utilities being turned off, eviction, repossessions, and the costs of a bad credit rating.

Homeowner Expenses

Remember that your budget should include your utility costs and a set savings amount for future home maintenance and repair costs.

Utility Expenses

- Gas
- Electric
- Trash pick-up
- Water & Sewage

You may have to come up with deposits to the utility companies to turn on their services as well.

Homeowner Expenses

The property taxes you pay are assessed based on value of the home and are also considered a tax deduction for federal taxes. However, it still remains a major cost for homeowners.

Taxes

- Property Taxes
 - ❖ Find out whether the tax assessment on the house will increase.
 - ❖ Property values determine each taxpayer's share of the total taxes.
- Exemptions
 - ❖ Depending on your age, where you live, disability status or if you are a veteran, you may be eligible for some type of tax relief.
 - ❖ Your local taxing authority can determine if you would qualify for such an exemption and also provide the necessary application information.

Many states set a maximum rate for each class of government (e.g., school, city, or county). Because real property can be located in overlapping tax districts (e.g. schools and towns), the total tax rates will vary from one neighborhood to another.

Homeowner Expenses

Insurance

Covers primarily a person's residence and covers the owner for liability resulting from his or her personal acts.

☐ Homeowner's Insurance

- You'll also have to get homeowners insurance unless you buy a condo and it's included in your homeowners association dues.
 - The condominium owner owns only the interior space of the unit; the exterior walls are considered part of the common space (and thus are maintained by a condominium owners' association).
 - Homeowners are responsible for the interior and exterior upkeep of their own homes. But the community is responsible for maintaining the common amenities.
 - The more features the community offers, such as guarded gates, swimming pools, gyms, etc., the higher the monthly homeowner association dues will be.
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- ☐ If your property is in a flood zone (as designated by the Federal Emergency Management Agency,) you'll be required to buy flood insurance as well.
 - ☐ Additionally, if you keep valuables like jewelry, electronics or artwork in your home, you may need to buy additional coverage.

Maintaining adequate insurance means that you will be covered in the unlikely event of a loss.

Here are four common components of a homeowners insurance policy:

- ☐ Dwelling/Building Coverage
- ☐ Liability Protection
- ☐ Valuable Add-Ons
- ☐ Condominium Stipulations

A little bit of insurance coverage goes a long way when it comes to unforeseen disasters — but only if you maintain proper coverage. You are responsible for making sure your insurance is renewed in a timely manner.

- Review handouts
 - Q&A

References

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